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SUBJECT: THE REAL STORY BEHIND ARMENIA'S 7.7 PERCENT
UNEMPLOYMENT RATE

REF: A) 05 YEREVAN 1705 B) 05 YEREVAN 1044

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accordingly.

SUMMARY

1. (SBU) According to the Armenian National Statistical Service, official unemployment at the end of 2005 was 7.7 percent. The official statistic is based on the number of Armenians collecting unemployment benefits. Many international organizations estimate that the true rate is closer to 25 percent. Low salaries, poor working conditions, and gender and age discrimination are common problems faced by Armenians in the market place. Underemployment is also a significant problem as many qualified specialists are obliged to work outside of their field of expertise often in low paying jobs in the service sector. The high levels of unemployment reported by international organizations and widespread underemployment are indicators that the benefits of Armenia's double-digit GDP growth (ref A) may not be reaching all segments of the population. End Summary.

THE OFFICIAL STORY

2. (SBU) In December 2005, the National Statistical Service reported an unemployment rate of 7.7 percent, a drop of 1.7 percent when compared to December 2004. The vast majority of the unemployed, more than 70 percent, are women. According to the Ministry of Labor and Social Affairs State Employment Agency Chief Sona Harutyunyan, the official statistics reflect the number of people registered for and receiving unemployment benefits. Harutyunyan told us the decrease in the rate was a direct result of government efforts to combat unemployment. She explained that the GOAM provided training courses for unemployed individuals to learn skills which were in high demand. She also said that many government public works programs were designed in part to increase employment.

3. (SBU) Harutyunyan explained, however, that these official statistics may not reflect actual rates of unemployment in Armenian. According to Harutyunyan, many Armenians failed to register because they viewed the 10-day registration process as a waste of time and effort, particularly given the low rate of unemployment compensation. Unemployment benefits are currently valued at approximately USD 14 per month, and will likely increase to approximately USD 20 later in 2006. She estimated that the actual unemployment rate may be as high as 15 percent. Harutyunyan also noted that her estimate and the official statistics did not include many rural Armenians who were not eligible for unemployment because they owned land on which they could grow food.

INTERNATIONAL ORGANIZATIONS ESTIMATE HIGHER RATES

4. (SBU) Labor market surveys conducted by the World Bank and United Nations Development Program indicate that unemployment in Armenia was as high as 30 percent in 2003. A recent study by the International Monetary Fund (IMF) states, "experts estimate that the true figure (for unemployment) lies between 15 and 25 percent." According to the IMF, the National Statistical Service also conducted a household survey based on an International Labor Organization methodology which had a much broader definition of unemployment. The survey results indicate that unemployment fell from approximately 38 percent in 2001 to 31.6 percent in 2004. The survey defined unemployed persons as those looking for jobs during the four weeks

preceding the survey or persons who had received a job offer, but were not working at the time the survey was conducted.

UNDEREMPLOYMENT REMAINS A PROBLEM

15. (SBU) While many Armenians use personal networks to job search, the number of private employment agencies in the country is increasing. These companies charge approximately USD 2 as an application fee and 30-80 percent of the first month's salary for job placement services. The Head of the Tanger Employment Agency told us there has been an increase in the number of Armenians trained in U.S. or Europe and who, because they were unable to find work in their fields in Armenia, have accepted positions far below their level of expertise. Representatives from both the Tanger and the Kizoghlyan employment agencies said approximately 50 percent of their clients were employed at the time of application, but were unsatisfied with the nature of their work, salary or working conditions. (Note: Many Armenians feel this problem acutely because under the Soviet education system the number of graduate degrees issued in a given area was set by the state to meet projected demand and graduates were essentially guaranteed employment in their field. Even 15 years after the Soviet system collapsed, the old mindset has not entirely loosened its hold. End Note.)

"ONLY THE YOUNG AND BEAUTIFUL NEED APPLY"

16. (SBU) Harutyunyan told us that in rural areas there is a high demand for teachers, doctors and other professionals, and in Yerevan the highest demand is for skilled laborers (carpenters, masons, plasterers, etc.), drivers and service sector employees including hotel clerks, restaurant workers, and sales personnel. Salaries in the service sector are extremely low, averaging between USD 70-100 a month. Many employers (including the highly regarded ACBA Bank and KPMG Armenia) include age and/or physical appearance requirements in their vacancy announcements. The most common age limits are from 18 to 30. Many service sector job announcements require that applicants have a minimum 3 years of work experience and a good command of Armenian, Russian and English. The fact that employers set such stringent requirements for applicants is an indicator of how weak the labor market is in Armenia.

POOR WORKING CONDITIONS

17. (SBU) The National Assembly adopted a new labor code in November 2004 which, among other provisions, limited the work day to eight hours and required that employers provide 28 calendar days of vacation annually. While the new law has been in force since June 2005, many private sector employees told us that they were unable to get paid leave and were required to work more than eight hours a day. The Head of the Kizoghlyan Employment Agency told us that many employers also hire employees for a "probationary" period of ten to 30 days during which the employee is not paid. Often these employees are subsequently fired, but, because their initial employment was "off the books," they are unable to claim payment for the time they worked. Anecdotal evidence suggests that some private sector employers underreport the size of their staff or the amount of salaries paid in an effort to avoid paying taxes.

REMITTANCES AS ALTERNATIVE TO EMPLOYMENT

18. (SBU) Available information on the importance of remittances to the Armenian economy suggests that many Armenians choose not to claim unemployment because they supplement their incomes with funds sent from abroad. According to the Ministry of Foreign Affairs, at the end of 2005 there were 2 million Armenians living in Russia and 1.4 million living in the U.S. These numbers suggest that the total number of Armenians living abroad exceeds the domestic population, estimated to be 3.2 million. Many Armenians living abroad provide financial support to family members living in Armenia and Central Bank statistics indicate that the net inflow of private remittances amounted to USD 352 million in 2005, an increase of 27 percent compared to 2004. A 2004 USAID-sponsored study suggests that remittances are significantly higher and

may account for as much as 25 percent of Armenia's GDP (ref B). Individuals benefiting from these inflows may be less likely to claim unemployment compensation even if they qualify under the law.

COMMENT

19. (SBU) The official unemployment rate of 7.7 percent masks a much larger problem with unemployment and underemployment in Armenia. While statistical information concerning the situation is limited, it appears that many Armenians work in poor conditions for low wages in jobs for which they are overqualified. The statistical information provided by international organizations suggests that true unemployment rates are declining, but at a very gradual pace. This fact is surprising given Armenia's double-digit GDP growth over the past four years (ref A) and highlights the need for continued efforts to ensure that all levels of Armenian society benefit from the country's impressive rates of economic growth.

EVANS